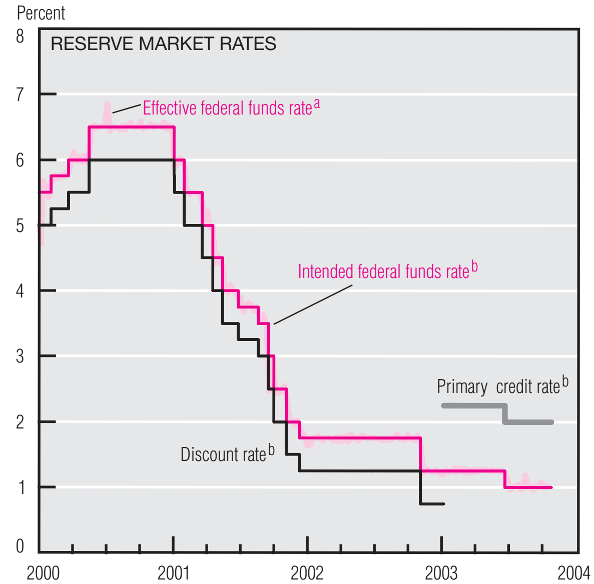
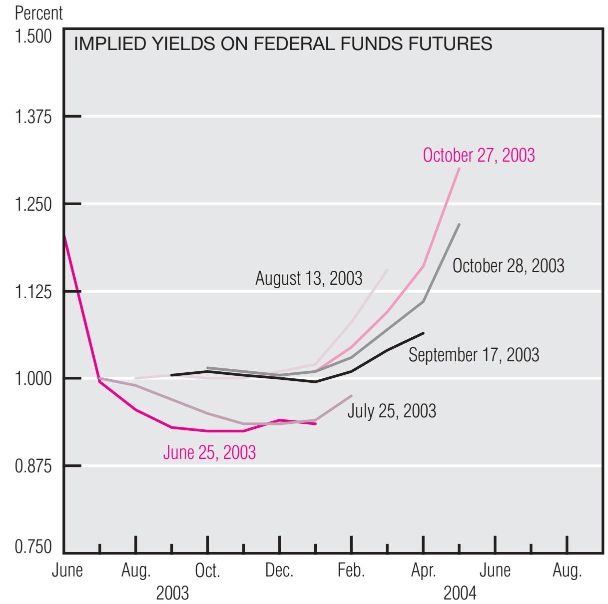
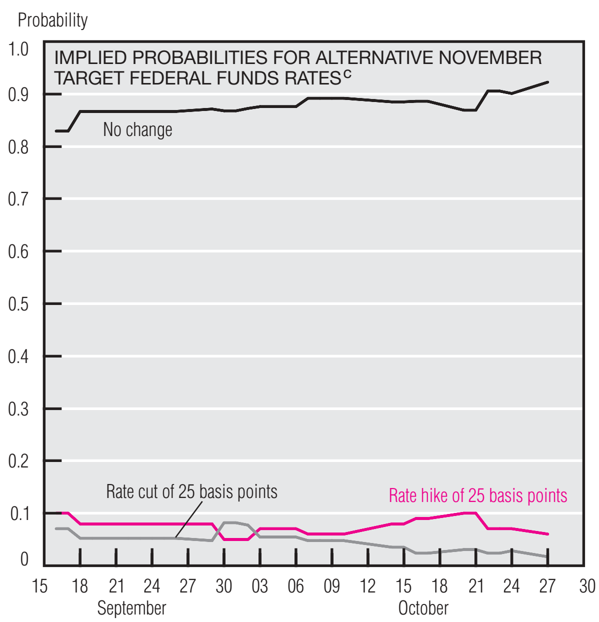
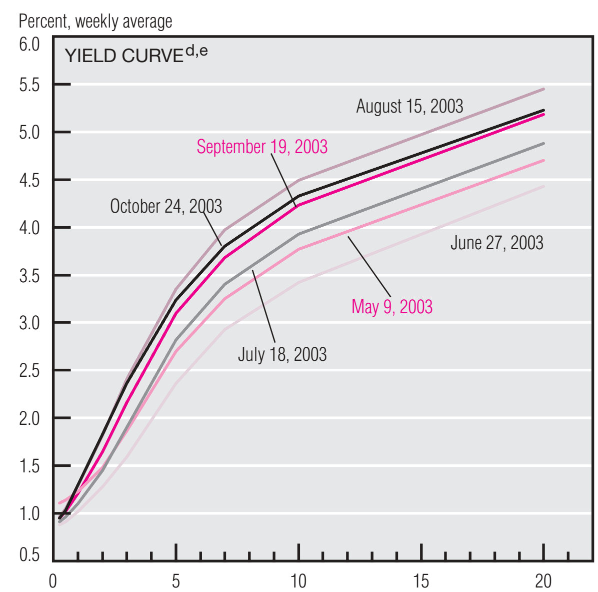
Monetary Policy









a. Weekly average of daily figures.
b. Daily observations.
c. Probabilities are calculated by using prices from options on November 2003 federal funds futures that trade on the Chicago Board of Trade.
d. All yields are from constant-maturity series.
e. Average for the week ending on the date shown.
SOURCES: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases* H.15; Chicago Board of Trade; and Bloomberg Financial Information Services.

At its October 28 meeting, the Federal Open Market Committee (FOMC) kept the intended federal funds rate at 1%, stating that the "accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity." Nonetheless, the FOMC said that "on balance, the risk of inflation becoming undesirably low remains the predominant concern for the foreseeable future," and reiterated its prior statement that "policy accommodation can be maintained for a considerable period."

Before the meeting, implied yields on federal funds futures suggested there would be no change in the funds rate on October 28. Since the September meeting, implied yields have increased moderately across the various maturities. Market participants continue to foresee a constant funds rate for the rest of this year and a round of mild tightening in early 2004.

The decision to leave the federal funds rate unchanged did not surprise participants in the options market for fed funds futures at the Chicago Board of Trade; the day before the October meeting, they placed a 92% probability on no change. They had increased their expectations of a 25 basis point increase in previous weeks but reversed themselves in the days just before the meeting.

The yield curve has shifted upward slightly since the September meeting (up 20 basis points for the three-year rate and 10 basis points for the 10-year rate). Ninety-day Treasury bill rates, at 0.95%, remained slightly below the intended federal funds rate, as they have for several months.